Alberta

Freedom To Create. Spirit To Achieve.

Alberta Heritage Savings Trust Fund

Annual Report
2009–2010

Government of Alberta

Heritage Fund

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Additional copies of this annual report and quarterly reports of the Heritage Fund and a detailed list of investments may be obtained by:

Visiting our website at: www.finance.alberta.ca

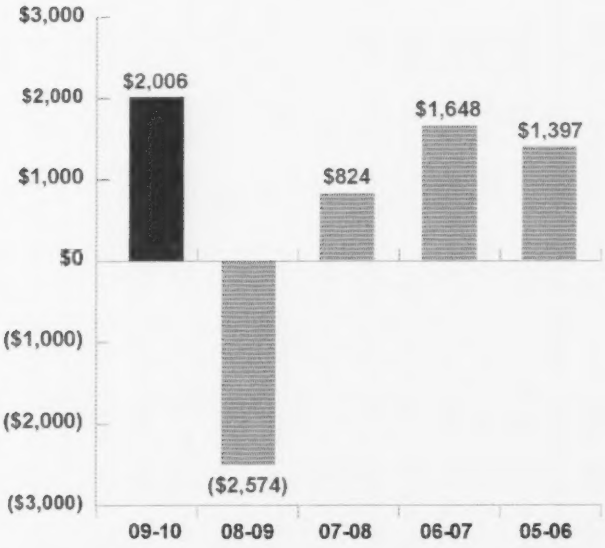
Or by writing:
Alberta Heritage Savings Trust Fund
Room 434, 9515 – 107 Street
Edmonton, Alberta, T5K 2C3

Or by calling: (780) 427-5364

HIGHLIGHTS

NET INCOME (LOSS)

fiscal years ending on March 31 (in millions)

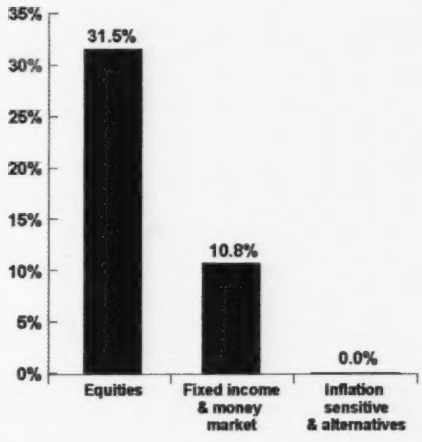


The Heritage Fund recorded the highest net income in its 34 year history, earning just over $2 billion in 2009-10.

» Under legislation, the net income reported in the financial statements, less an amount retained for inflation-proofing, is paid to the General Revenue Fund (the GRF). Since inflation is negative for fiscal 2009-10, no amount was retained in the Fund for inflation-proofing.

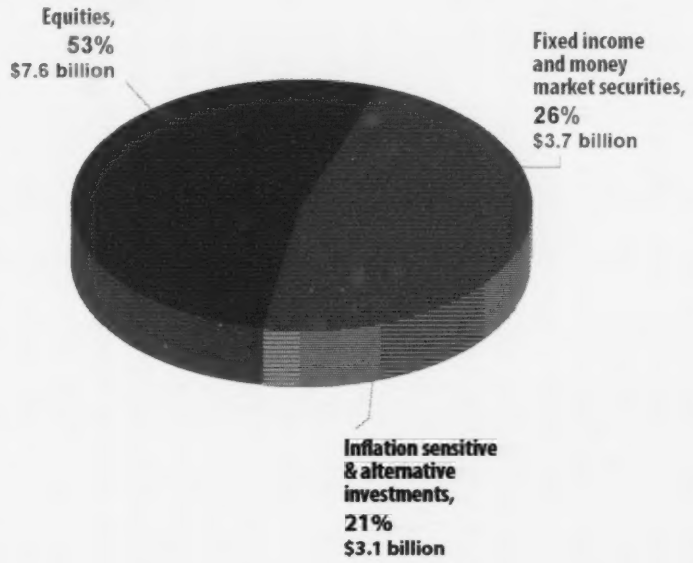
Equities make up 53% of the Fund's assets. They posted strong gains this year, earning 31.5% in 2009-10.

INVESTMENT RETURNS
(by asset class)



ASSET MIX

March 31, 2010

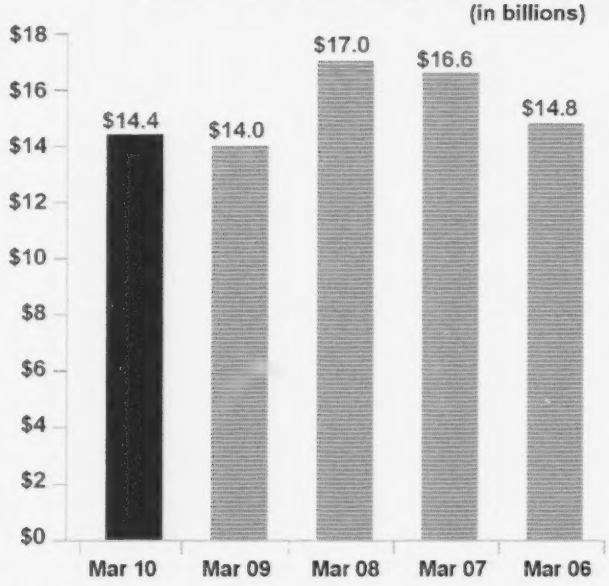


HIGHLIGHTS

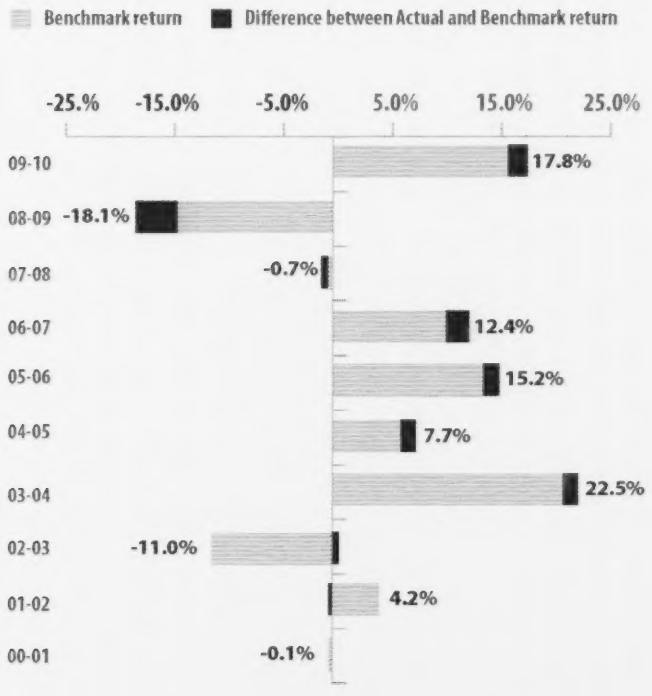
At March 31, 2010, the fair value of the Fund's net assets, after transfers of $2 billion to the Province's General Revenue Fund, totalled $14.4 billion. The increase in fair value is due to unrealized gains in the Fund's investment portfolio.

VALUE OF THE HERITAGE FUND

(in billions)



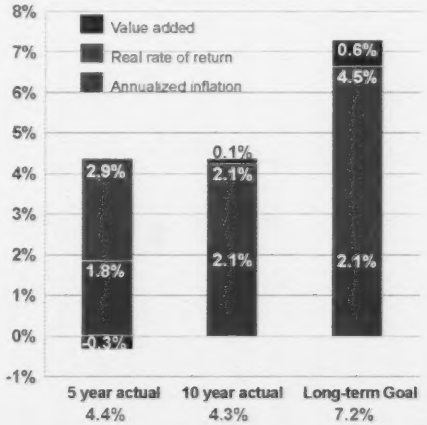
ANNUAL INVESTMENT RETURNS



In 2009-10, the Fund's investment manager out-performed the Fund's overall market-based benchmark. The actual return this year was 17.8%, 1.5% greater than the Fund's policy benchmark return.

Over 10 years, the Fund earned an annualized return of 4.3% per annum compared to its long-term business plan investment goal of 7.2% per annum.

LONG-TERM ANNUALIZED RETURNS*



* Over five and ten years, inflation has averaged 1.8% and 2.1% per annum based on the Consumer Price Index (CPI). Effective for 2009-10 and going forward, the Fund's long-term business plan investment goal is inflation plus 4.5% plus 1.0% in value added by the investment manager.

Message from the Minister of Finance and Enterprise

Fiscal year 2009-10 proved to be an exceptional year for the Heritage Fund. The Fund recorded the single largest annual net income in its 34 year history. During the year, the Fund's investment portfolio earned just over $2.0 billion. There was a significant improvement in investment markets this year driven by an infusion of financial liquidity from governments around the world and renewed investor confidence.

Over the past 34 years, the Fund has generated over $32 billion in net income. The Fund's realized net income is transferred to the Province's main operating account, the General Revenue Fund, where it is used for Albertans' priorities such as health care, education and infrastructure. As a result of this year's strong performance, the Fund was able to contribute $2.0 billion to general revenues, the largest transfer in the Fund's history.

The Heritage Fund has a diversified portfolio of investments including bonds, mortgages, public and private equities, real estate, derivative products, infrastructure investments, timberland and hedge funds. The Fund has a global portfolio with investments located in Canada, United States, Europe, Australia, Asia, the Far East and emerging markets.

As of March 31, 2010, the Heritage Fund finished the year with a net fair value of $14.4 billion, after transfers of $2.0 billion to the General Revenue Fund, compared to $14.0 billion at the beginning of the year. Over the year, the Fund recorded a return on investment of 17.8%, and over ten years an annualized return of 4.3%.

The Heritage Fund is an important part of the Province's fiscal framework and represents an ongoing legacy for all Albertans. While returns were very strong this year, we must recognize that in focusing on achieving high returns over the long run, we must accept increased risk and volatility in the Fund's investment income and returns from year to year. The key to achieving long run sustainable performance is to maintain a diversified portfolio, an exceptional investment management team and a long-term focus.

[Original signed by Ted Morton]

Honourable Ted Morton
Minister of Finance and Enterprise

About the Heritage Fund

What is the Heritage Fund?

The Heritage Fund is Alberta's main long-term savings fund. Originally, the Fund was established to collect a portion of Alberta's non-renewable resource revenue for future generations. The Fund today produces income which supports government programs essential to Albertans like health care and education.

When was the Heritage Fund established?

The Fund was created in 1976. At first 30% of Alberta's non-renewable resource revenue was transferred to the Fund. As Alberta experienced tough economic times in the early 1980's, this percentage was reduced to 15% and then eventually stopped in 1987.

After Alberta eliminated its accumulated debt in 2005, the Province began saving in the Heritage Fund again. The government made a number of principal contributions from budget surpluses. As well, the Fund's legislation provides that the Fund retain a portion of its income to protect again inflation.

What is the Heritage Fund worth today?

The investments in the Fund are worth $14.4 billion at March 31, 2010.

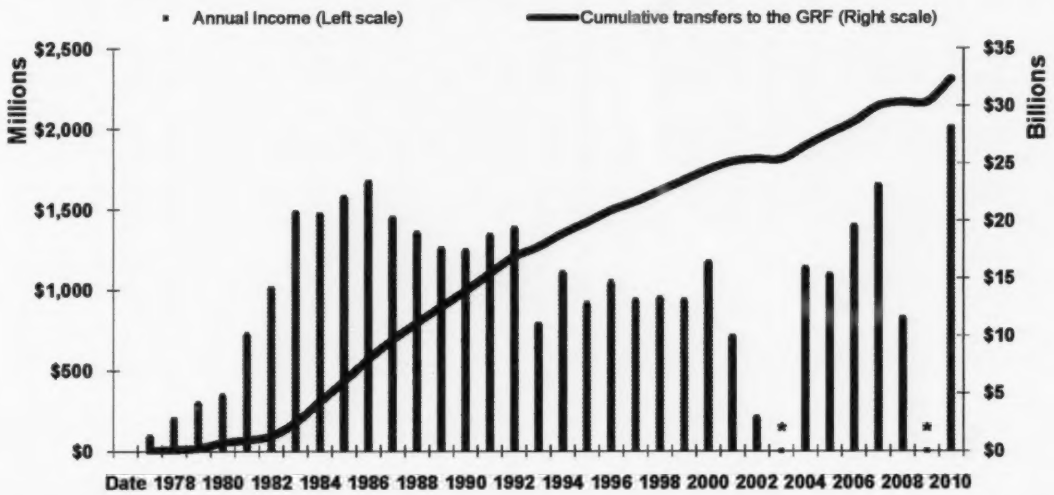
What happens to the income earned by the Heritage Fund?

The investment income earned by the Heritage Fund is transferred to the Province's main operating fund, the General Revenue Fund, to help pay for priority programs less any amount required for inflation proofing.

Over the past 34 years, investment income from the Heritage Fund has benefited Albertans in many ways.

Approximately $32 billion has been provided from the Heritage Fund to support program and capital spending in areas such as health care, education, infrastructure, debt reduction and social programs. This year, $2 billion from the Heritage Fund went to the General Revenue Fund, to help fund priority programs.

The graph below shows the support for Albertans' priorities. The vertical bars show the annual investment income earned by the Fund in each of the past 34 years (in millions). The horizontal line shows the cumulative amount provided for program and capital spending (in billions).



* No income was transferred to the GRF in 2002-03 and 2008-09 as the Fund recorded losses in those years of $894 million and $2,574 million respectively.

How is the Heritage Fund invested?

The Fund's goal is to invest with an objective of achieving a long-term financial return of 4.5% above inflation with an acceptable level of risk.

The investment plan is balanced on two important concepts: diversification to manage risk and a long-term planning horizon to earn greater returns.

The Heritage Fund's portfolio consists of investments in private and public companies, bonds, real estate, and infrastructure investments.

A little more than half of the Fund is invested in equities. Historically, equities have outperformed bonds over the long-term as investors are paid a risk premium to hold stocks.

Who keeps track of the Fund's investments?

The Minister of Finance and Enterprise is ultimately responsible for the Fund and its investments. The Department looks after setting the long-term strategy, developing investment policy and monitoring investment performance.

The purchasing of stocks, bonds and other investments for the portfolio is managed by a group of highly qualified and experienced professionals of Alberta Investment Management Corporation (AIMCo).

The Minister of Finance and Enterprise reports to Albertans on the performance of the fund quarterly and releases the Fund's annual report within 90 days of the end of the fiscal year.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan and annual report of the Fund.

The Standing Committee has representation from the major parties of the legislature and receives regular reports on the performance of the Fund. The Standing Committee also conducts public meetings annually in different locations across the province, to update Albertans on the management of the Fund and to solicit input from Albertans.

The business plan of the Heritage Fund is published at the same time as the provincial budget.

The 2009-10 Year in Review

(April 1, 2009 to March 31, 2010)

A strong recovery in world equity markets in 2009-10 led to the highest recorded investment income in the Fund's 34 year history. Overall, the Fund earned slightly over $2 billion this year, nearly triple the Fund's original budget estimate of $711 million. This was a significant turnaround from last year's investment loss of $2.6 billion caused by the global credit crisis, recession and declining commodity prices.

The Fund has a legislated provision for retaining a portion of its income for inflation-proofing. However, since inflation in Canada is negative for fiscal 2009-10, no amount has been retained in the Fund and all of the net income is transferred to the General Revenue Fund.

At March 31, 2010, the net assets held in the Fund totaled $13.838 billion, at cost, and $14.400 billion, at fair value. At March 31, 2010, 53% of the Fund's investments were invested in equities followed by 26% in fixed income and money market securities and 21% in inflation sensitive and alternative investments.

The cost of the Fund's investments primarily includes the purchase price of the various assets, adjusted for writedowns. The fair value of the Fund's investments represents what those assets would be worth if sold. The difference between the Fund's cost and fair value of net assets represents unrealized gains. Unrealized gains represent the profit that would be made if the assets were sold. At March 31, 2010, net unrealized gains increased by $420 million to $562 million from $142 million at the beginning of the year.

On a fair value basis, the Fund's investments returned 17.8% this year, representing a significant turnaround from last year's loss of 18.1%.

The table below summarizes the overall change in the net assets of the Fund.

Changes in Net Assets
(in millions)

	Years ended March 31		
	Budget	**Actual**	
	2010	2010	2009
Investment income (loss)	$ 778	$ 2,077	$ (2,501)
Investment expenses	(67)	(71)	(73)
Net income (loss)	**711**	**2,006**	**(2,574)**
Transfers to the General Revenue Fund	(711)	(2,006)	-
Net income (loss) retained in the Fund	-	-	(2,574)
Cost of net assets, beginning of year	13,928	13,838	16,412
Cost of net assets, end of year	**$ 13,928**	**$ 13,838**	**$ 13,838**
Accumulated unrealized gain (loss)		562	142
Fair value of net assets, end of year		**$ 14,400**	**$ 13,980**

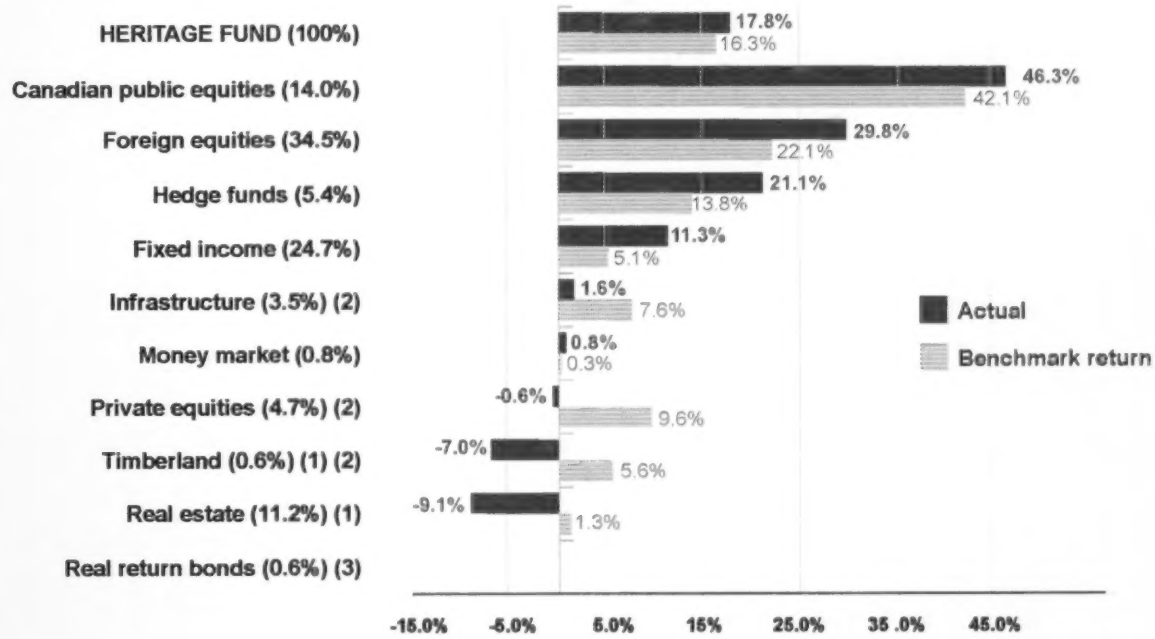
INVESTMENT MANAGEMENT PERFORMANCE

The Fund's actual investment return for each asset class is compared to a benchmark. Whenever possible, a market-based index is used for a benchmark. The purpose of this comparison is to measure the valued added or lost from investment management decisions made by Alberta Investment Management Corporation (AIMCo). The Fund's policy benchmark return is determined by multiplying the benchmark return for each asset class by its percentage of the Fund's total portfolio.

In the fourth quarter, the Fund's investment return was 1.9%, bringing the total return over the year to 17.8%. Overall, AIMCo out-performed the policy benchmark return for the Fund. This year's actual return of 17.8% was 1.5%, or approximately $212 million, greater than the overall policy benchmark of 16.3%. Over the past year, AIMCo significantly out-performed the Fund's benchmarks in Canadian equities, foreign equities, hedge funds, bonds and money market securities, while under-performing the benchmarks in timberland, private infrastructure, real estate and private equities. Canadian equities, which comprise 14.0% of the Fund's investment portfolio, had the highest return of all asset classes, earning 46.3% over the year compared to the benchmark of 42.1%. The global equity portfolio return of 29.8% also did well against its benchmark of 22.1% and contributed most to the Fund's over-performance. Foreign equity returns were lower when translated in Canadian dollars due to the stronger Canadian dollar against other foreign currencies. At March 31, 2010, one U.S. dollar was worth $1.02 Canadian compared to $1.26 Canadian at March 31, 2009. One euro was worth $1.37 Canadian at March 31, 2010 compared to $1.67 Canadian at March 31, 2009.

In the chart below, the horizontal bars compare the actual return against the benchmark return. The asset class and its percent of the total Fund is shown on the left.

Comparison of Actual Returns to Benchmark Returns (in Canadian dollars)
Year ended March 31, 2010



(1) Performance in real estate and timberlands suffered this past year primarily because of a valuation lag that is common in illiquid assets, since they are only valued once per year. Performance in these two asset classes were negative reflecting the market downturn in 2008, which finally caught up in the valuations. The real estate portfolio had poor performance as it was overweight in Alberta office space, while the timberlands portfolio performed poorly due to the slump experienced in the housing market.

(2) The benchmark for timberland, infrastructure and private equities is the Consumer Price Index plus 4.0%, 6.0% and 8.0% per annum respectively.

(3) The Fund's investment in real return bonds commenced in October 2009. Full year returns are not provided.

INVESTMENT INCOME

The table below shows the actual net income reported in the financial statements by asset class and by the type of income or loss. The investments and investment income are recorded in the financial statements on a cost basis, which excludes unrealized gains and losses.

Summary of net income, by asset class and type
For the year ended March 31, 2010
(in millons)

Asset class	Income (1)	Net realized gain (loss) on investments (2)	Writedowns (3)	Expenses (4)	Net income (loss)
Fixed income and money market	$ 227	$ 52	$ (1)	$ (4)	$ 274
Public equities	169	1,274	(15)	(19)	1,409
Private equity	20	2	(38)	(19)	(35)
Real estate	77	83	(42)	(8)	110
Real return bonds	1	-	-	-	1
Infrastructure	17	75	-	(6)	86
Hedge funds	11	152	(5)	(8)	150
Timberland	1	17	-	(1)	17
Fund investment expenses	-	-	-	(6)	(6)
Total - 2010	**$ 523**	**$ 1,655**	**$ (101)**	**$ (71)**	**$ 2,006**
Total - 2009	$ 647	$ (2,265)	$ (883)	$ (73)	(2,574)

(1) Income includes interest, dividends, rental income and security lending income.

(2) Net realized gains on investments are up from 2009 due to a strong rebound in world equity markets over the past year.

(3) The cost of securities is written down where the market value has declined significantly below cost and the decline is not considered temporary. Writedowns are down significantly from 2009 due to the increase in value of public equities during the year.

(4) The net decrease in expenses from 2009 is due to a reduction in external manager fees during the year and an increase in costs incurred directly by AIMCo.

The table below shows the net income or loss of the Fund, on a cost and fair value basis, for each asset class. The fair value of investments provides information to assess the investment performance of the Fund against market-based benchmarks. Investment income on a fair value basis includes changes in unrealized gains and losses. On a fair value basis, the Fund recorded a net gain of $2,426 million for the year ended March 31 2010, compared to a loss of $3,064 million for last year.

Summary of net investment income (loss) at cost and fair value
For the years ended March 31
(in millons)

Asset class	Net income (loss) cost basis 2010	Net income (loss) cost basis 2009	Increase (decrease) in unrealized gains 2010	Increase (decrease) in unrealized gains 2009	Income (loss) fair value basis 2010	Income (loss) fair value basis 2009
Fixed income and money market	$ 274	$ (72)	$ 169	$ (122)	$ 443	$ (194)
Canadian public equities	366	(669)	393	(207)	759	(876)
Global developed equities	1,036	(1,621)	170	(95)	1,206	(1,716)
Emerging markets equities	7	(28)	16	(19)	23	(47)
Private equities	(35)	(34)	35	(51)	-	(85)
Private real estate	110	89	(278)	(3)	(168)	86
Real return bonds	1	-	2	-	3	-
Infrastructure	86	62	(77)	(47)	9	15
Hedge funds	150	(287)	14	50	164	(237)
Timberland	17	(11)	(24)	4	(7)	(7)
Fund investment expenses	(6)	(3)	-	-	(6)	(3)
Investment income (loss)	$ 2,006	$ (2,574)	$ 420	$ (490)	$ 2,426	$ (3,064)

INVESTMENTS

The table on the right compares the actual asset mix of the Fund to the approved policy asset mix reported in the Fund's Business Plan.

Instead of specific targets for each asset class, AIMCo will be given more latitude in selecting investments that can deliver the most benefit to Albertans within the minimum and maximum ranges shown on the right.

The policy range includes newer asset class allocations to long-bonds, frontier markets and real return bonds.

	Asset Mix		
	Actual		Policy
	2010	2009	Range
FIXED INCOME AND MONEY MARKET	**25.5%**	**28.5%**	**15-45%**
Deposits and short-term	0.8%	1.0%	0-25%
Bonds and mortgages	24.7%	27.5%	10-35%
Long bonds	0.0%	0.0%	0-10%
EQUITIES	**53.2%**	**47.8%**	**35-70%**
Public			
Canadian	14.0%	14.2%	0-15%
Global developed	34.2%	28.8%	20-65%
Emerging markets	0.3%	0.3%	0-10%
Frontier markets	0.0%	0.0%	0-5%
Private	4.7%	4.5%	0-10%
INFLATION SENSITIVE AND ALTERNATIVE INVESTMENTS	**21.3%**	**23.7%**	**15-40%**
Real estate	11.2%	13.8%	10-20%
Real return bonds	0.6%	0.0%	0-10%
Infrastructure	3.5%	3.5%	5-15%
Hedge funds	5.4%	5.8%	0-10%
Timberland	0.6%	0.6%	0-5%
	100.0%	100.0%	100%

The table below shows the fair value and cost of each asset class and the unrealized gain or loss at March 31, 2010, and March 31, 2009. Unrealized gains and losses represent the difference between the fair value and cost of the investment. Once securities are sold, unrealized gains or losses become realized and are included in investment income for the year. At March 31, 2010, the pool of unrealized gains had increased by $420 million to $562 million from $142 million at the beginning of the fiscal year.

Summary of Net Assets

At March 31, (in millions)	March 31, 2010			March 31, 2009		
	Fair Value	Cost	Unrealized gain (loss)	Fair Value	Cost	Unrealized gain (loss)
Investments:						
Money market securities	$ 123	$ 123	$ -	$ 138	$ 137	$ 1
Fixed income securities	3,550	3,546	4	3,832	3,998	(166)
Canadian equities	2,012	1,843	169	1,981	2,205	(224)
Global developed equities	4,917	4,815	102	4,016	4,084	(68)
Emerging markets equities	39	42	(3)	48	67	(19)
Private equities	677	667	10	625	650	(25)
Real estate	1,614	1,302	312	1,935	1,345	590
Real return bonds	82	80	2	-	-	-
Infrastructure	502	580	(78)	483	484	(1)
Hedge funds	783	738	45	813	782	31
Timberland	83	84	(1)	90	67	23
Total Investments	14,382	13,820	$ 562	13,961	13,819	$ 142
Net receivables (1)	18	18		19	19	
Net assets	$ 14,400	$ 13,838		$ 13,980	$ 13,838	

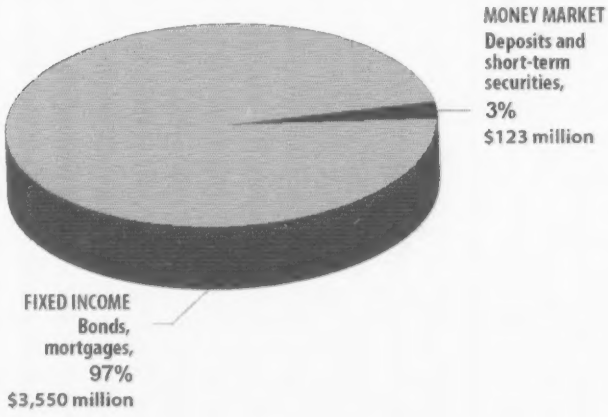
(1) At March 31, 2010, includes investment receivables of $25 milion, transfers payable to the GRF of $6 million and expenses payable of $1 million.

FIXED INCOME AND MONEY MARKET SECURITIES

This asset class includes deposits and short-term securities and bonds and mortgages.

The fair value of interest bearing securities totalled $3.673 billion, or 25.5% of the total portfolio at March 31, 2010, down from $3.970 billion, or 28.5% at the beginning of the year.

Fixed income and money market securities, at fair value



Money market securities

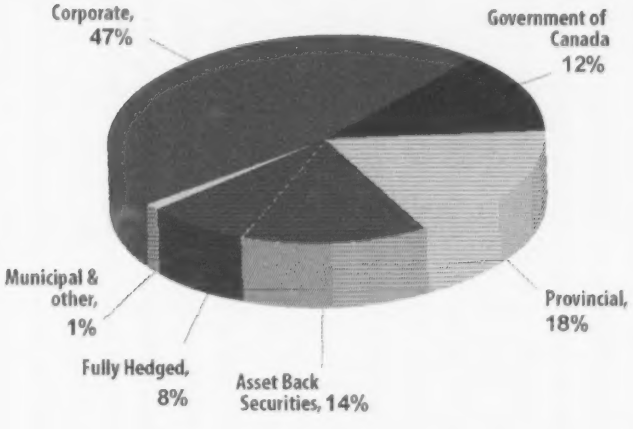
Deposits and short-term securities include primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years. They comprised $123 million, or 0.8%, of the Fund at March 31, 2010, down from $138 million, or 1.0%, at the beginning of the year.

Fixed income securities

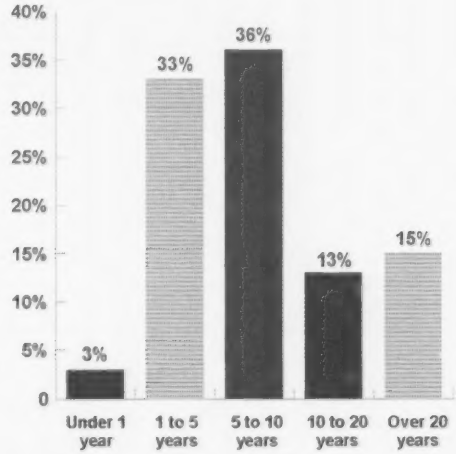
The fair value of bonds and mortgages totalled $3.550 billion, or 24.7% of the total portfolio at March 31, 2010, down from $3.832 billion, or 27.4%, at the beginning of the year. Bonds comprise approximately 80% of the fixed income portfolio while private mortgages comprise the remaining 20%. Bonds include interest-bearing Government of Canada bonds and mortgage-backed securities (MBS), provincial and municipal bonds, corporate bonds and asset-backed securities (ABS). AIMCo maintains an overweight position in corporate bonds relative to the benchmark, the DEX Universe Bond Index. Corporate bond spreads continued to improve throughout 2009-10 in response to signs of improving economic growth.

The charts below summarize the fixed income portfolio by issuer and maturity profile.

Fixed income securities
Bonds by issuer



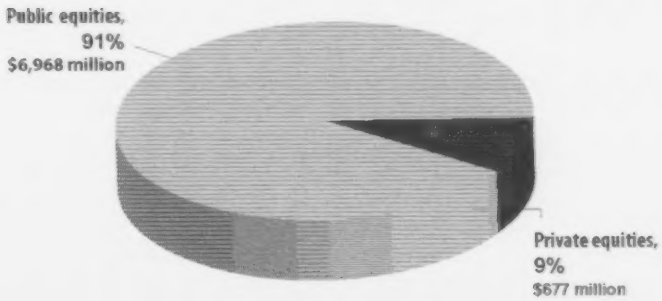
Fixed income securities
Maturity profile



EQUITIES

The equity portfolio makes up the largest asset class in the Fund. Most of the equity portfolio is invested in publicly traded companies in Canada, United States, Europe, Australia, Asia, the Far East and emerging markets. A smaller portion is invested in private equities.

Equities, at fair value

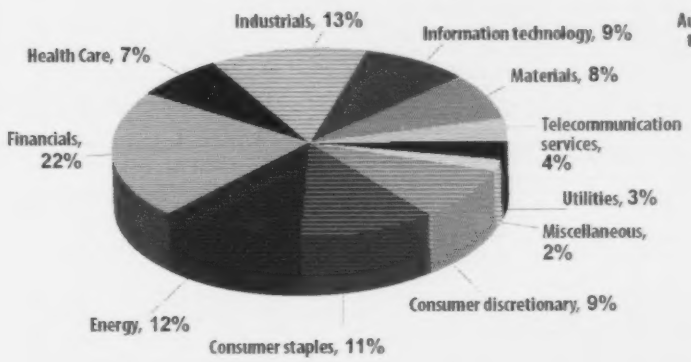


Public equities

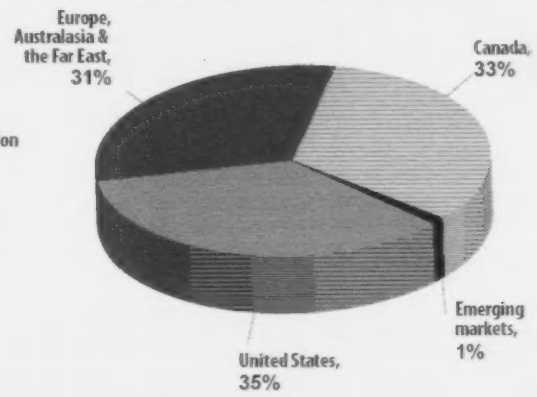
The fair value of public equities comprised $6.968 billion or 48.5% of the total investment portfolio at March 31, 2010, up from $6.045 billion, or 43.3%, at the beginning of the year. The public equity portfolio includes directly held shares of major corporations in Canada, global developed markets and emerging markets and indirect exposure to these public markets through structured equity products using index swaps and futures contracts. The global developed market is used to describe countries whose economies and capital markets are well established and mature. The global developed portfolio primarily includes equity investments in public companies in the United States, Europe, Australasia, the Far East (EAFE) and smaller allocations to emerging markets and Canada. The United States makes up the largest country in the global market followed by the EAFE market consisting of 21 countries of which six countries (Japan, United Kingdom, France, Germany, Switzerland and Australia) make up approximately 80%. The emerging market portfolio includes publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China also referred to as BRIC.

The charts below show the Fund's exposure in public equities by major industry sector and by geographic region The largest allocations are to financials, industrials and energy while the geographic allocations are shared approximately equally between Canada, the United States and EAFE.

Public equities by industry sector



Public equities by geographic sector



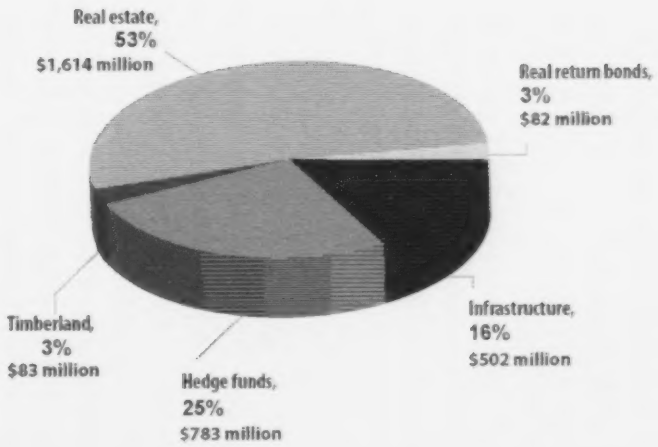
Private equities

The estimated fair value of private equities totalled $677 million, or 4.7%, of the Fund at March 31, 2010 up from $625 million, or 4.5%, at the beginning of the year. Private equity investments primarily include merchant banking investments which include expansion capital, acquisition financings, management buyouts, family succession, turnaround financings and project financings.

INFLATION SENSITIVE AND ALTERNATIVE INVESTMENTS

The inflation sensitive and alternative investments asset class consists of real estate, real return bonds, infrastructure, hedge funds and timberland. The fair value of this asset class totalled $3.064 billion, or 21.3% of the total portfolio at March 31, 2010, down from $3.321 billion, or 23.7% at the beginning of the year.

Inflation sensitive & alternative investments, at fair value

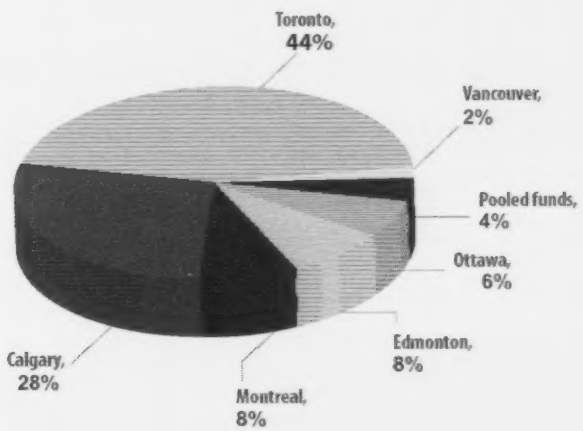

Real estate, 53% $1,614 million
Real return bonds, 3% $82 million
Infrastructure, 16% $502 million
Hedge funds, 25% $783 million
Timberland, 3% $83 million

Real Estate

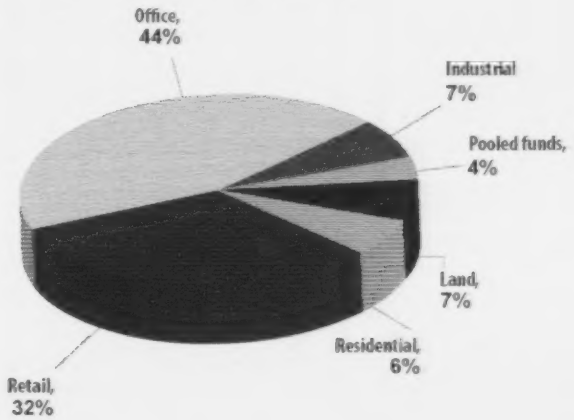
Real estate investments are held in Canada (97%) and outside Canada (3%). The fair value of real estate totalled $1.614 billion, or 11.2%, of the Fund at March 31, 2010, down from $1.935 billion or 13.8% at the beginning of the year. In Canada, most of the real estate is held in Ontario and Alberta in the office and retail sectors.

The following charts show the distribution of Canadian real estate investments by city and by sector.

Canadian real estate by city



Canadian real estate by sector



Real return bonds

The Fund began investing in real return bonds in 2009-10. They comprised $82 million, or 0.6%, of the Fund's total investment portfolio at March 31, 2010. Real rate of return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

Infrastructure investments

The estimated fair value of infrastructure investments totaled $502 million, or 3.5%, of the Fund at March 31, 2010, up from $483 million, or 3.5%, at the beginning of the year. This asset class primarily consists of equity positions in infrastructure assets that provide essential services to the public, generally either regulated or with highly contracted revenue. Investments are selected and structured to provide attractive returns with inflation sensitivity with a long investment horizon.

Hedge funds

The estimated fair value of hedge funds totaled $783 million, or 5.4%, of the Fund's total investment portfolio at March 31, 2010, down from $813 million, or 5.8%, at the beginning of the year. This class of investment encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and short selling overvalued securities.

Timberland

The estimated fair value of timberland investments totaled $83 million, or 0.6%, of the Fund at March 31, 2010, down from $90 million, or 0.6%, at the beginning of the year. The timberland investment is primarily timber and related land located in the Province of British Columbia.

INVESTMENT EXPENSES

The day-to-day investment services for the Fund are provided by AIMCo which manages the majority of the Fund's investments through pooled investment funds. While most of the investments are managed directly by AIMCo, some investments are managed by third party investment managers selected and monitored by AIMCo in order to achieve greater diversification and access external expertise and specialized knowledge.

Investment expenses include those costs and fees incurred to earn investment income in the Fund. Investment services provided directly by AIMCo are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Fund, investment policy oversight and treasury management services. A portion of these costs is charged to the Fund.

Investment expenses as a percentage of net assets are provided below. The decrease in expenses primarily relates to a net reduction in external managers offset by an increase in direct Fund investment expenses.

Investment expenses
For the year ended March 31,
(in millions)

	2010	2009
Private equities	$ 19	$ 19
Foreign equities	16	20
Private real estate	8	8
Hedge funds	8	10
Infrastructure	6	4
Fund investment administration expense	6	3
Fixed income and money market securities	4	5
Canadian equities	3	3
Timberland	1	1
Inflation sensitive real return bonds	-	-
Total investment expenses	$ 71	$ 73
Average fair value of investments for the years ended March 31, 2010 and 2009	$ 14,172	$ 15,466
Expenses as a percent of investments at average fair value	0.50%	0.47%

Historical Summary of Operations
May 19, 1976 to March 31, 2010

(in millions)

Fiscal Year	NET INCOME (LOSS) (a)	TRANSFERS TO THE FUND: Resource Revenue Allocation	TRANSFERS TO THE FUND: Advanced Education Endowment New Deposits	TRANSFERS TO THE FUND: Advanced Education Endowment (b)	TRANSFERS (FROM) THE FUND: Section 8 (2) Income Transfers (c)		TRANSFERS (FROM) THE FUND: Capital Project Expenditures	Fund Equity, at cost
1976-77	$88	$2,120	-	-	-		($36)	$2,172
1977-78	194	931	-	-	-		(87)	3,210
1978-79	294	1,059	-	-	-		(132)	4,431
1979-80	343	1,332	-	-	-		(478)	5,628
1980-81	724	1,445	-	-	-		(227)	7,570
1981-82	1,007	1,434	-	-	-		(349)	9,662
1982-83	1,482	1,370	-	-	(867)		(296)	11,351
1983-84	1,467	720	-	-	(1,469)		(330)	11,739
1984-85	1,575	736	-	-	(1,575)		(228)	12,247
1985-86	1,667	685	-	-	(1,667)		(240)	12,692
1986-87	1,445	217	-	-	(1,445)		(227)	12,682
1987-88	1,353	-	-	-	(1,353)		(129)	12,553
1988-89	1,252	-	-	-	(1,252)		(155)	12,398
1989-90	1,244	-	-	-	(1,244)		(134)	12,264
1990-91	1,337	-	-	-	(1,337)		(150)	12,114
1991-92	1,382	-	-	-	(1,382)		(84)	12,030
1992-93	785	-	-	-	(785)		(84)	11,946
1993-94	1,103	-	-	-	(1,103)		(71)	11,875
1994-95	914	-	-	-	(914)		(49)	11,826
1995-96 (e)	1,046	-	-	-	(1,046)		-	11,826
1996-97	932	-	-	-	(756)	(d)	-	12,002
1997-98	947	-	-	-	(922)	(d)	-	12,027
1998-99	932	-	-	-	(932)		-	12,027
1999-00	1,169	-	-	-	(939)	(d)	-	12,257
2000-01	706	-	-	-	(706)		-	12,257
2001-02	206	-	-	-	(206)		-	12,257
2002-03	(894)	-	-	-	-		-	11,363
2003-04	1,133	-	-	-	(1,133)		-	11,363
2004-05	1,092	-	-	-	(1,092)		-	11,363
2005-06	1,397	-	1,000	750	(1,015)	(d)	-	13,495
2006-07	1,648	-	1,000	250	(1,365)	(d)	-	15,028
2007-08	824	-	918	-	(358)	(d)	-	16,412
2008-09	(2,574)	-	-	-	-		-	13,838
2009-10	2,006	-	-	-	(2,006)		-	13,838
TOTAL	**$30,226**	**$12,049**	**$2,918**	**$1,000**	**($28,869)**		**($3,486)**	**$13,838**

a) The net income of the Fund and its assets and liabilities, net of consolidation adjustments, is included in the consolidated financial statements of the Ministry of Finance and Enterprise and the Government of Alberta.

b) The Access to the Future Act allows for a maximum of $3 billion to be transferred into the Fund to support the advanced education endowment.

c) In accordance with section 8(2) of the *Alberta Heritage Savings Trust Fund Act*, the net income of the Fund, less any amount retained in the Fund to maintain its value from inflation, shall be transferred to the GRF, annually in a manner determined by the Minister of Finance and Enterprise.

d) Includes amount retained in the Fund for inflation-proofing represented by the difference between net income and amount transferred to GRF. At March 31, 2010, the accumulated amount retained in the Fund for inflation-proofing was $1,562 million (2009: $1,562 million).

e) March 31, 1996 marked the end of the old structure of the Heritage Fund. In 1996-97, the Fund commenced a structuring process under a new framework. The new framework provided for a transition into more market based investments, inflation proofing the Fund and a long-term investment horizon providing for the greatest financial returns on investments.

Audited Financial Statements

March 31, 2010

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Statements of Cash Flows 20
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Auditor's Report

To the Minister of Finance and Enterprise

I have audited the statements of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2010 and 2009, and the statements of operations and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles

[Original signed by Merwan Saher]

Edmonton, Alberta
June 4, 2010

CA
Auditor General

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENTS OF FINANCIAL POSITION

AS AT MARCH 31

(in millions)

	2010	2009
Assets		
Portfolio investments (Note 3)	$ 13,820	$ 13,819
Receivable from sale of investments and accrued income	25	20
	$ 13,845	$ 13,839
Liabilities		
Due to the General Revenue Fund	$ 6	$ -
Administration expense payable	1	1
	7	1
Net Assets (Note 6)	13,838	13,838
	$ 13,845	$ 13,839

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENTS OF OPERATIONS AND NET ASSETS

YEARS ENDED MARCH 31

(in millions)

	2010		2009
	Budget	**Actual**	**Actual**
Investment income (loss) (Note 7)	$ 778	$ 2,077	$ (2,501)
Investment expenses (Note 8)	(67)	(71)	(73)
Net income (loss)	711	2,006	(2,574)
Transfers to the General Revenue Fund (Note 6b)	(711)	(2,006)	-
Net income (loss) retained in the Fund (Note 6b)	$ -	-	(2,574)
Net Assets at beginning of year		13,838	16,412
Net Assets at end of year		$ 13,838	$ 13,838

The accompanying notes are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31

(in millions)

	2010	2009
Operating transactions		
Net income (loss)	$ 2,006	$ (2,574)
Non-cash items included in net income (loss)	(149)	63
	1,857	(2,511)
(Increase) decrease in accounts receivable	(5)	1
Decrease in accounts payable	-	(60)
Cash provided by (applied to) operating transactions	1,852	(2,570)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	10,833	4,323
Purchase of investments	(10,702)	(1,983)
Cash provided by investing transactions	131	2,340
Transfers		
Transfers to the General Revenue Fund	(2,006)	-
Increase in amounts due to the General Revenue Fund	6	113
Cash (applied to) provided by transfers	(2,000)	113
Decrease in cash	(17)	(117)
Cash at beginning of year	100	217
Cash at end of year	$ 83	$ 100
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 83	$ 100

The accompanying notes are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010
(in millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act (the Act)*, Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio Investments

Investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

(b) Investment Income and Expenses

Investment income and expenses, as reported in Notes 7 and 8, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net recognized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at

inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year end exchange rates. Exchange differences on transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private infrastructure, private real estate, loans, absolute return strategies and timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, nor amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Changes in estimated fair value of investments are reported in the period in which new information is received.

The methods used by the Alberta Investment Management Corporation (AIMCo) to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

(i) Public interest-bearing securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages and private interest-bearing debt are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

(iv) The estimated fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

(v) The fair value of Absolute Return Strategies (hedge funds) is estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

(viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts and swap option contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and futures contracts are valued based on quoted market prices.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

NOTE 3 PORTFOLIO INVESTMENTS (in millions)

	2010			2009		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities (a)	$ 123	$ 123	0.8	$ 137	$ 138	1.0
Bonds and mortgages (b)	3,546	3,550	24.7	3,998	3,832	27.5
	3,669	3,673	25.5	4,135	3,970	28.5
Equities						
Canadian public equities (c)	1,843	2,012	14.0	2,205	1,981	14.2
Global developed public equities (d)	4,815	4,917	34.2	4,084	4,016	28.8
Emerging markets public equities (e)	42	39	0.3	67	48	0.3
Private equities (f)	667	677	4.7	650	625	4.5
	7,367	7,645	53.2	7,006	6,670	47.8
Inflation sensitive and alternative investments						
Private real estate (g)	1,302	1,614	11.2	1,345	1,935	13.8
Inflation sensitive real return bonds (h)	80	82	0.6	-	-	-
Private infrastructure investments (i)	580	502	3.5	484	483	3.5
Absolute return strategy hedge funds (j)	738	783	5.4	782	813	5.8
Timberland (k)	84	83	0.6	67	90	0.6
	2,784	3,064	21.3	2,678	3,321	23.7
	$ 13,820	**$ 14,382**	**100.0**	**$ 13,819**	**$ 13,961**	**100.0**

The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the investment policies approved by the Minister of Finance and Enterprise. The majority of the Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in the pooled fund. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 5).

NOTE 3 (continued) (in millions)

(a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund, being cash as reported in the Statements of Cash Flows, of $83 (2009: $100) and short-term securities of $40 (2009: $37). These investments include primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years. At March 31, 2010, deposits and short-term securities had a time-weighted return of 1.0% per annum (2009: 3.0% per annum).

(b) Interest bearing bonds and mortgages include government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At March 31, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 5%); 1 to 5 years: 33% (2009: 36%); 5 to 10 years: 36% (2009: 27%); 10 to 20 years: 13% (2009: 15%); and over 20 years: 15% (2009: 17%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling $nil (2009: $406).

Included in bonds and mortgages are two policy investments held in the Fund prior to its restructuring in 1996-97. These policy investments include an 11% participating first mortgage bond with principal and deferred interest totaling $173 (2009: $177.5) due July 31, 2015 and a loan with principal of $53 due July 2046. At March 31, 2010, these policy investments have carrying values, excluding accrued interest, of $129.5 and $3 respectively (2009: $134 and $2.8). Subsequent to the year end, an independent valuation was received which estimated the fair value of the 11% participating first mortgage bond to be $149.4 at March 31, 2010, excluding accrued interest.

(c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling $586 (2009: $1,243).

(d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling $1,727 (2009: $2,404).

(e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

(f) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

(g) The private real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

(h) Real rate of return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

(i) Private infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

(j) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

(k) Timberland investments are located primarily in Canada. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows (usually settled every three months) based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Futures contracts are an agreement to receive or pay cash based on changes in the level of the specified index.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2010 (in millions):

	Maturity			2010		2009	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	99%	1%	-	$ 2,520	$ 67	$ 2,910	$ 9
Interest rate swap contracts	31%	56%	13%	638	(21)	1,088	(55)
Forward foreign exchange contracts	100%	-	-	3,232	50	2,635	(94)
Cross-currency interest rate swaps	30%	28%	42%	396	27	854	(32)
Credit default swap contracts	29%	39%	32%	2,297	(18)	5,398	(88)
Bond index swap contracts	-	-	-	-	-	165	1
Futures contracts	100%	-	-	1,811	121	1,160	175
Swap option contracts	100%	-	-	472	(3)	-	-
				$ 11,366	$ 223	$ 14,210	$ (84)

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the Business Plan contained the following asset mix policy ranges for the Fund for 2009-10:

Interest-bearing securities	**15-45%**
Deposits and short-term securities	0-25%
Bonds and mortgages	10-35%
Long bonds	0-10%
Equities	**35-70%**
Canadian public equities	0-15%
Global developed public equities	20-65%
Emerging markets public equities	0-10%
Frontier market public equities	0-5%
Private equities	0-10%
Inflation sensitive and alternative investments	**15-40%**
Private real estate	10-20%
Inflation sensitive real return bonds	0-10%
Private infrastructure investments	5-15%
Absolute return strategy hedge funds	0-10%
Timberland	0-5%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 NET ASSETS (in millions)

Net assets represent the difference between the carrying value of assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2010	2009
Accumulated net income	$ 30,226	$ 28,220
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future (a)	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8(2) transfers (b)		
Income	(30,431)	(28,425)
Amount Retained for Inflation-proofing	1,562	1,562
	(28,869)	(26,863)
Capital Expenditures (1976-1995) (c)	(3,486)	(3,486)
	(32,355)	(30,349)
Net Assets, at cost	**$ 13,838**	**$ 13,838**
Net Assets, at fair value	**$ 14,400**	**$ 13,980**

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the fund.

(b) In accordance with section 8(2) of the Alberta Heritage Savings Trust Fund Act (the Act), the Fund transferred $2,006 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $2,006 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $0, shall be transferred to the GRF annually in a manner determined by the Minister of Finance and Enterprise. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation proofing by the estimated percentage increase in the Canadian gross domestic product implicit price index (GDP Deflator Index) for the year. In accordance with section 11(3), if the GDP Deflator Index is a negative number, that negative number shall be treated as if it were zero.

(c) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

NOTE 7 INVESTMENT INCOME (LOSS) (in millions)

The following is a summary of the Fund's investment income (loss) and expenses by asset class:

	2010			2009		
	Gross Income (Loss)	Expenses	Net Income (Loss)	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 1,059	$ 16	$ 1,043	$ (1,629)	$ 20	$ (1,649)
Canadian equities	369	3	366	(666)	3	(669)
Interest-bearing securities	278	4	274	(67)	5	(72)
Absolute return strategies	158	8	150	(277)	10	(287)
Private real estate	118	8	110	97	8	89
Private infrastructure investments	92	6	86	66	4	62
Timberland	18	1	17	(10)	1	(11)
Private equities	(16)	19	(35)	(15)	19	(34)
Inflation sensitive real return bonds	1	-	1	-	-	-
Fund investment expenses	-	6	(6)	-	3	(3)
	$ 2,077	**$ 71**	**$ 2,006**	**$ (2,501)**	**$ 73**	**$ (2,574)**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of writedowns, on investments. The investment income for the year ended March 31, 2010, includes writedowns totalling $101 million (2009: $883 million).

NOTE 8 INVESTMENT EXPENSES (in millions)

Investment services are provided by AIMCo. It provides the day to day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by AIMCo are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	2010	2009
Total Investment Expenses	**$ 71**	**$ 73**
Average fair value of investments	14,172	15,466
Percent of investments at average fair value	0.50%	0.47%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the Fund's return on investment, net of expenses, compared to the Fund's policy benchmark:

			Average Annualized Return	
Time-weighted rates of return, at fair value (1)	2010	2009	5 years	10 years
			(in percent)	
Actual gain (loss) (2)	17.8%	-18.1%	4.4%	4.3%
Benchmark gain (loss) (2)	16.3%	-14.0%	4.7%	4.2%
Value added (lost) by investment manager	1.5%	-4.1%	-0.3%	0.1%

(1) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(2) The actual and policy benchmark returns are a product of the weighted average sector weights and sector returns. Some of the sector returns used in the determination of the overall actual and policy benchmark returns are based on management's best estimate which may vary significantly from the final return. Differences between the estimated sector returns and the final returns are recorded in the period of the change.

NOTE 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2010 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

FUND GOVERNANCE

The Fund was established in 1976 and operates under the authority of the Alberta Heritage Savings Trust Fund Act. On January 1, 1997, an amended Act was passed that sets out a revised investment framework for the Fund.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the Business Plan and Annual Report of the Fund. The Standing Committee has representation from the major parties of the legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the Province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objective.

The Ministry of Finance and Enterprise is responsible for the Fund and its investments. The Minister of Finance and Enterprise is required to report on the performance of the Fund quarterly within 60 days of the end of the quarter and make public the annual report within 90 days of the end of the fiscal year.

The business plan of the Fund is published as part of the provincial budget and the income of the Fund is consolidated into the revenue of the Province.

Alberta Investment Management Corporation (AIMCo) manages the day-to-day investment operations of the Fund. AIMCo uses specialized external private sector managers for specific investment mandates.

Alberta Heritage Savings Trust Fund Standing Committee

Chair:	Janis Tarchuk, MLA for Banff-Cochrane
Deputy Chair:	Doug Elniski, MLA for Edmonton-Calder
Members:	Heather Forsyth, MLA for Calgary-Fish Creek
	Hugh MacDonald, MLA for Edmonton-Gold Bar
	Alana Delong, MLA for Calgary-Bow
	George Groeneveld, MLA for Highwood
	Art Johnston, MLA for Calgary-Hays
	Dave Quest, MLA for Strathcona
	Laurie Blakeman, MLA for Edmonton-Centre
Committee Clerk	Corinne Dacyshyn

Investment Manager
Dr. Leo de Bever, Chief Executive Officer,
Alberta Investment Management Corporation

Auditor
Merwan Saher, CA, Auditor General of Alberta

BUDGET 2010 BUSINESS PLAN SUMMARY

PURPOSE

The business plan of the Heritage Fund describes the statutory mission, investment goals, strategies and performance measures and policy benchmarks. The business plan is prepared annually and is published as part of the Provincial budget. The business plan is then reviewed and approved by the Minister of Finance and Enterprise, the Treasury Board and the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

STATUTORY MISSION

The statutory mission of the Fund is:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

GOALS AND PERFORMANCE MEASURES

The three main goals of the Fund and their related performance measures, as outlined in the Fund's business plan, are as follows:

1. Maximize long-term returns at a prudent level of risk.

- The investment income of the Fund is an important component of the government's fiscal plan. The net income of the Fund, except for amounts retained for inflation-proofing, is transferred to the GRF and used to fund Albertans' priorities. The Fund must be invested in such a way as to maximize returns over the long-term while adopting a prudent investment strategy that balances the level of risk with the goal of high portfolio returns.

- The Act provides for the maintenance of the Fund's real value by requiring the Heritage Fund to be inflation-proofed.

Key Strategies

- Through an on-going review process, ensure the asset mix is best positioned to achieve the goal of maximizing long-term returns at a prudent level of risk. The Fund's Investment Policy Statement, established by the Minister of Finance and Enterprise, sets out the policy asset mix which includes a globally diversified portfolio in both public and private equities, fixed income and real assets.

- Develop a framework for measurement and reporting of the risks associated with the investment of the Heritage Fund to ensure risk is being kept within prudent levels.

- Develop risk measures for monitoring the risks of the Heritage Fund.

Key Performance Measures

The table below describes the various types of investments (asset classes) the Fund can invest in according to the business plan. Each asset class is assigned a target asset mix within a minimum and maximum range. An overall policy benchmark return of the Fund represents the total of the weighted average benchmark returns for each asset class. The difference between the Fund's actual return and policy benchmark return represents the return from active management. The active management return is expected to be equal to or greater than 1.0% in 2009-10. The asset mix return is used to determine whether the target asset mix as set out in the investment policy is achieving expected returns. The asset mix return is expected to exceed the Canadian Consumer Price Index (CPI) plus 4.5%.

Asset Class	Target	Minimum	Maximum
		(in percent)	
Fixed income and money market securities	**20**	**15**	**45**
Deposits and short-term securities		0	25
Bonds and mortgages		10	35
Long bonds		0	10
Equities	**50**	**35**	**70**
Canadian		0	15
Global developed		20	65
Emerging markets		0	10
Frontier markets		0	5
Private equity		0	10
Inflation sensitive and alternatives	**30**	**15**	**40**
Real Estate		10	20
Infrastructure		5	15
Real Return Bonds		0	10
Timberland		0	5
Hedge Funds		0	10

2. Ensure the Heritage Fund aligns with the fiscal goals of the Province.

The Fund is one of the largest financial assets on the Province's balance sheet providing a source of revenue. In order to ensure the Fund aligns with the goals of the Province, it is important to consider how the risks and return profile of the Fund interact with the overall fiscal landscape of the Province.

Key Strategies

- Continue to review the effects of currency fluctuations of the Fund and determine whether a currency strategy should be applied to the Heritage Fund.

3. Ensure the transparency of the Heritage Fund's objective and results for Albertans.

Published reports and news releases will provide Albertans with access to information to enhance understanding of the Heritage Fund.

Key Strategies

- Release quarterly and annual reports on a timely basis in simple understandable language.
- Publish the Heritage Fund Business Plan annually.
- The Legislature's Standing Committee will hold annual public accountability meetings.
- Creation of a comprehensive report for the citizens of Alberta outlining the details and dealings of the Heritage Fund. The report will be created in a format that the average Albertan can identify with.
- Continue to improve the access of depth of information available to Albertans.

Key Performance measures

- Timeliness of reports and public accountability meetings.
- Annual report will be released by June 30 of each year.
- Quarterly reports will be released within two months after the end of each quarter.

GLOSSARY

ABSOLUTE RETURN STRATEGIES
Absolute Return Strategies (Hedge Funds) encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long/short equity, fixed income arbitrage, merger arbitrage, macroeconomic strategies, convertible arbitrage, distressed securities and short selling.

ACCRUAL ACCOUNTING
An accounting method that recognizes income when it is earned and expenses when they are incurred, rather than when they are received or paid.

ACTIVE STRATEGIES
The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P/TSX Index for Canadian Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

ASSET MIX
The percentage of an investment fund's assets allocated to major asset classes (for example 50% equities, 30% interest-bearing securities and 20% inflation sensitive and alternative investments).

BENCHMARK
A standard against which actual returns are measured. For the purposes of this report, benchmarks are established income indices used to measure the health of the Fund's investment income.

BOND
A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

CAPITAL GAIN
The market value received on sale of an asset beyond its cost or purchase price. If the asset is bought for $50 and sold for $75, the realized capital gain (profit) is $25.

COST VALUE
The value for which an asset was acquired.

DEPOSITS
Liquid, short-term investments. A cash equivalent.

DERIVATIVE CONTRACT
Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

DIVERSIFICATON
Spreading investments to reduce risk by buying different securities from various companies, businesses, locations and governments.

EMERGING MARKET
An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment.

EQUITY
Stocks; the ownership interest in a company.

EXTERNAL MANAGER
A third-party firm contracted to provide investment management services.

FAIR VALUE
Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is similar to market value.

FRONTIER MARKETS
Equity markets in smaller and less accessible developing countries. These pre-emerging markets are typically pursued by investors seeking high long-term return potential.

GENERAL REVENUE FUND (GRF)
The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most of the expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)
These are accounting guidelines formulated by the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Committee (ASC), that govern how businesses and governments report their financial statements to the public. The recommendations of the Public Sector Accounting Board (PSAB) of the CICA are the primary source for the disclosed basis of accounting.

GLOBAL DEVELOPED MARKET
The global developed market is used to describe countries whose economies and capital markets are well established and mature.

INFLATION
Increases in the general price level of goods and services. Inflation is one of the major risks to investors over the long-term as savings may actually buy less in the future.

INTEREST-BEARING SECURITIES
Interest bearing investments such as bonds and debentures, and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

INTEREST RATE SENSITIVE EQUITY
Equity whose return is expected to react to changes in interest rates.

INVESTMENT PORTFOLIO
A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LARGE CAP
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

LIQUIDITY
The ease with which an asset can be turned into cash and the certainty of the value it will obtain.

LONG BONDS
Generally includes bonds with terms to maturity of greater than ten years.

MARKET VALUE
See fair value.

MARKET (VALUE) RATE OF RETURN
The market value rate of return measures income (interest and dividends) and capital appreciation or depreciation (realized and unrealized). The method used to calculate the return is the time-weighted method.

MARKETABLE SECURITY
An investment for which there is usually a ready market.

MODIFIED DURATION
A measure of price volatility of fixed income securities (i.e. bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY
An interest bearing security such as treasury bills or corporate paper that matures within one year form the date of acquisition.

NET INCOME
The amount of earnings remaining after deducting expenses.

NET INVESTMENT INCOME
On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, includes in addition to the above, current period changes in unrealized gains and losses.

NOMINAL RATE OF RETURN
A measure of return that does not exclude the effect of inflation (see Real Rate of Return).

PAR VALUE
A value set as the face or principal amount of a security, typically expressed as multiples of $100 or $1,000. Bondholders receive par value for their bonds at maturity.

PASSIVE STRATEGIES
These strategies involve investing to replicate the performance of a given market index such as the S&P/TSX Composite Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

POOLED FUND
A fund in which money from two or more investors is accepted for investment and where units allocated to each investor serve to establish the proportionate interest at any time of each investor in the assets of the Fund.

REAL RETURN BOND
A interest-bearing security (i.e. bond) that generates a specified real rate of return. The real interest rate is the nominal (set) interest rate minus inflation.

REAL VALUE OR REAL RATE OF RETURN
A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED AND UNREALIZED
Terms generally used to describe capital gains or losses. A gain or loss is realized when the asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

SWAP
A financial agreement whereby counter parties agree to exchange the returns they earn on their respective assets. An investor might swap the return from his floating rate note portfolio for the return of a major equity index like the Standard and Poor's Toronto Stock Exchange.

SECURITY
Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT
An investment with a maturity date of less than one year.

SHORT SELLING
A sale of securities not owned at the time of sale anticipating the price to fall and the securities to be repurchased at a profit. Short selling involves borrowing equivalent securities for delivery to a buyer and eventually buying the securities to return to the lender.

SMALL CAP
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

TERM-TO-MATURITY
The number of years left until a bond matures.

TIME-WEIGHTED RATE OF RETURN
Time-weighted rate of return are designed to eliminate the effect that the size and timing of cash flows has on the internal rate of return since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

VOLATILITY
In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

Government of Alberta ■
Finance and Enterprise